

98-84366-22

Droppers, Garrett

The Gold standard in  
Japan

[S.I.]

[1897?]

98-84366-22

MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES  
PRESERVATION DIVISION

## BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

332.4

Z

Droppers, Garrett, 1860-1927.

v.25

The gold standard in Japan; an address delivered  
to the "Keizai kyokai" (Economic society)...  
February 20th. 1897.

9 p. 26 cm.

Half-title.

Vol. of pamphlets.

21954



ONLY ED

RESTRICTIONS ON USE: Reproductions may not be made without permission from Columbia University Libraries.

## TECHNICAL MICROFORM DATA

FILM SIZE: 35mmREDUCTION RATIO: 12:1IMAGE PLACEMENT: IA ☒ IIA ☐ IB ☐ IIBDATE FILMED: 3-10-98INITIALS: PBTRACKING #: 32063

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

P12.8  
26

The 1

LIBRARY OF  
THE  
SOUND CURE  
62 William St., New York.

304  
2  
45  
41

# THE GOLD STANDARD IN JAPAN.

AN ADDRESS DELIVERED TO THE "KEIZAI KYOKAI" (ECONOMIC SOCIETY)

SATURDAY, FEBRUARY 26TH, 1897.

BY

GARRETT DROPPERS

LIBRARY OF  
THE  
SOUND  
62 W  
LIBRARY OF  
THE  
SOUND  
62 W  
LIBRARY OF  
THE  
SOUND  
62 W

LIBRARY OF  
THE  
SOUND  
62 W

LIBRARY OF  
THE REFORM CLUB  
SOUND CURRENCY COMMITTEE  
62 William St. New York.

## THE GOLD STANDARD IN JAPAN.

AN ADDRESS DELIVERED TO THE "KEIZAI KYOKAI" (ECONOMIC SOCIETY)  
SATURDAY, FEBRUARY 20TH, 1897.

It was my purpose to address this Society on a somewhat abstract question of monetary science,—a question not, however, entirely disconnected with certain practical consequences, especially in relation to the monetary policy which a country is to adopt at the present time. The subject I had thought of speaking to you about was the effect of an appreciating or depreciating currency on the industrial and commercial interests of a country. This subject, which I firmly believe is at the basis of all intelligent discussion of monetary principles, I thought might prove less interesting at the present moment than the more practical and specific question of the monetary standards—a question which, after agitating nearly every civilized country during the past twenty-five years, has at last been brought to the doors of Japan for solution. The issue is an important one. It has divided political parties into new camps. It has brought economists into the field of active controversy. It has vastly increased the amount of monetary literature, and threatens to reconstruct the whole theory of money that has prevailed throughout the world for the most part since the days of Adam Smith. The question has been taken out of the field of purely academic discussion, and if I treat it in what may seem to you a somewhat partisan manner I can only affirm that I have given to it as great a measure of honest and impartial thought as my mind is capable of.

It is quite impossible at this stage of the proceedings, when the details of the proposed change of standard from silver to gold in Japan are yet unknown, to discuss the finer points of the measure. But in its broad outlines the matter seems to be fairly clear. I shall take it for granted that the following changes will be made:

1. That the Japanese Government will suspend the free coinage of the silver *yen*.

2. That the new standard unit of money will be the gold *yen*.

3. That free coinage will be given in the mint only to gold, some multiple of the gold *yen* being chosen for this purpose, for the obvious reason that the gold *yen* is too small for convenience and therefore unfit for purposes of coinage.

4. That the new unit will approximately contain one-half of the amount of gold in the former gold *yen*, that is, instead of containing 25.72 grains of gold 9/10 fine, it will contain nearly, or precisely, 12.84 grains of gold 9/10 fine.

5. That both gold and silver coins, excluding, however, subsidiary coinage, will be as heretofore full legal tender. The substance of the change is that Japan proposes to make gold the standard of value, and that Japanese silver coins, though convertible into gold, will no longer be coined freely in the mint of the Empire. As such, the proposed currency of Japan may be roughly compared to the currency now existing in Holland, France, and the United States.

Before proceeding to state my objections to this monetary scheme, I propose to give, as fairly as possible, what I conceive to be its chief merits in the minds of those who aim to carry it through. These merits I believe to be the following:—

First, by adopting the gold standard, Japan will secure a stable par of exchange with those countries with which she now transacts more than a moiety of her business. It is estimated that 7/10 of Japanese imports and exports are transacted with countries under the gold standard. Exchange with these countries is always a matter of uncertainty—higher to-day, lower to-morrow, and this uncertainty transforms almost every merchant into a speculator in exchange. This element of risk in the ordinary business of export and import is

a highly injurious element in the economic affairs of a nation, and forces even the most careful business man more or less into the vortex of speculation.

Second.—By adopting a gold standard, Japan will be saved from the disadvantages of further depreciation. Just as an over issue of inconvertible paper leads to high prices, reckless extravagance, and the predominance of speculation over the productive interests of a country, so the depreciation of silver leads *pro tanto* to the same result. All economists agree that an excessive depreciation of money by over issue is one of the greatest evils that can be inflicted upon a country. It invariably makes the rich richer and the poor poorer. It draws men away from the more sober methods of wealth production into the more seductive avenues of fortune hunting. Like excessive drinking, it first induces a crazy enthusiasm, then a stupor, and finally a most painful and miserable awakening. The gold standard, in the opinion of its advocates, is certainly not a depreciating standard, and will save Japan from any further rise of prices.

Third.—By adopting the gold standard, Japan can secure the influx of capital from those nations which have a superabundance of that indispensable aid to wealth. Japan is a country with considerable resources, with an industrious population, and an excellent situation, but she is poor in capital. The rate of interest is too high to enable her capitalists fairly to compete with foreign enterprises of the same kind. It is difficult for her to find a market for her securities abroad. She cannot get English or Continental investors to look at her securities, because she is on a silver basis, which is constantly fluctuating in terms of gold. But once established on the gold standard, Japan will find no difficulty in securing the importation of foreign capital. Foreign investors will then be certain that their investments are as secure in Japan as in their own country. The credit of Japan has an excellent reputation abroad. Her government is always been scrupulously honest in the performance of monetary obligations, and she has never failed to meet the interest of her debt at the proper moment. But the great bar at present in the way of securing foreign capital is the difference of the standards, and so long as this difference lasts, so long will the wealthy capital-lending nations look with suspicion on the securities of Japan, whether they be those of national or local governments or of private corporations. As soon, therefore, as Japan places herself on a gold basis we may expect, in the opinion of the gold party, a large increase in the enterprise of the country, its manufactures and commerce, a fall

in the rate of interest, and a higher price for all securities.

Fourth.—By adopting the gold standard Japan will be saved from the reproach of having a currency inferior to that of other civilized countries. In the opinion of foreign financiers, silver is a discredited metal, fit only for half-civilized nations. It is the common opinion of a large class of men, the so-called gold mono-metallic party of Europe and America, that as economic civilization advances, so also does the standard of value progress from the cheaper to the dearer metal. Barbarous people may use copper or iron, higher civilizations may have silver, but the true money of civilization must be gold because it is the rarest metal of all. It combines the greatest value in the least bulk. Japan can not afford to suffer from the reproach of having an inferior money system. So long as she clings to the silver standard she will be classed with countries like China and Mexico—a contingency she is most desirous of avoiding.

These four reasons are, in my opinion, the chief arguments in favour of adopting a gold standard in Japan. I have stated them as fairly as I can, without trying to minimize their importance or wishing to cast upon them one iota of reproach. Indeed, a man might well argue that Japan was only presumptuous in fighting against the prevailing tendency of civilized nations. If nearly all the progressive and enlightened nations of the world are doing their best either to make the single gold standard a fixture in their monetary system, or trying to establish it in lieu of some other less accredited standard, why should Japan presume to swim against the current and separate herself from the interests of civilization? If Japan has adopted her military and her naval armaments, her banking system, and her education, her prisons, and her ships, from Europe and America, why should she remain isolated in only one important feature of her civilization, so far as it is a matter of world-wide and not national concern?

Before offering my reasons why I believe these arguments of the gold party in Japan insufficient, I should like to urge a point that will bring out my objection to the intended change more clearly. It is agreed that the unit of the proposed gold standard is to be not the old gold *yen* containing 25.72 grains  $9/10$  fine, but an entirely new unit containing only one-half of the gold *yen* that was the unit of Japanese coinage about twenty-five years ago. During these twenty-five years the silver *yen* and the gold *yen*, starting with practical equivalence, have gradually parted company, until at present the former is valued at only one-half of the latter. This gradual transformation of value is obviously not in any

way due to the action of the Japanese Government. It is due to world-wide movements, which, though a matter of much dispute, I hold to be caused by the silver demonetizing policy of Germany, France, Italy, the United States, and other countries. Japan, by resuming specie payment in 1886 in silver, after an era of inconvertible paper, accepted all the consequences, good or bad, of the adoption of silver as the standard. Silver in terms of gold fell in value, first gradually, then, after the closing of the Indian mints and the repeal of the Sherman Act in the United States in 1893, with greater speed. It would not have been entirely impossible in 1886 for the Japanese Government to have resumed in gold instead of silver. Even in 1890, when the Sherman Act went into operation, the Japanese Government could, had a strong determination existed, have altered its standard from silver to gold, and probably could have succeeded in making the old gold *yen* the unit. But it did not do so, and now we have the result that the silver *yen* is equal in value to only one-half of the gold *yen*. I should like to ask whether any number of Japanese regret the failure to adopt the old gold unit. What would have happened to industrial Japan had she resumed about the year 1885-6 in gold instead of silver? Does any one believe that Japanese industry and commerce would stand where they are to-day under a gold standard composed of that unit? Does any one believe that the rapid strides which Japan has taken in the past ten years in every direction of industrial enterprise would have taken place had the yellow metal stood at the basis of her monetary system? If the gold party in Japan hold this view of the matter, then why not resume the gold standard at the present time in terms of the old gold *yen* of 25.72 grains instead of one-half that amount? If the resumption of specie payments in terms of gold would have been a mistake in 1885-6, and would have proved an injury to Japanese industry and commerce, what was the precise nature of that injury and why will not resumption from silver to gold to-day be *pro tanto* an equal injury? And, if it was a mistake at that time to have adopted silver instead of gold as the standard, then a further question arises why not resume to-day in terms of the old gold unit, the *yen* of 25.72 grains.

During the past seventeen years, the United States has stood upon an inflexible gold standard and has had all the advantages and disadvantages of that standard. Had the United States Government proposed to make the gold unit of value one-half of the existing gold dollar, the attempt would have been heralded throughout the world as national repudiation. Yet that is

what Japan has practically accomplished. It is quite unnecessary for me to state that Japan has not been guilty of the slightest wrong in this respect. The point is only this, that she has in the course of two decades really existed under a standard which permitted the monetary unit to decline in value from a practical equality with the American gold dollar to one-half that value, while the United States has stood under a unit that still contains the same amount of gold as it did two decades ago. At the very foundation of the controversy now going on in Japan with regard to the change of standards, is the question whether the United States has benefited by clinging to the gold dollar as its unit, or whether Japan has benefited by having a unit which in terms of gold has been steadily declining in value.

I wish to give a few reasons why I believe that Japan has gained by standing on a silver basis and the United States lost by standing on a gold basis during the past twenty years and these reasons will furnish a general explanation of my opposition to any change of standard at present in Japan. The real reason why Japan has derived an unmixed advantage from her silver standard is that silver has been a relatively stable standard of value, while gold has been steadily appreciating in the past twenty or twenty-five years throughout the civilized world. In 1871, there was only one commercial country of the world on an exclusive gold basis, all the other countries having either a bimetallic standard, as France and Belgium, or a silver standard as Germany and Holland, or a currency of inconvertible paper as Italy, the United States, Austria, and Russia. Since then all of these countries have ceased coining silver except in trifling amounts, and have opened their mints freely to gold alone. This demand for gold has been so great that it has become almost a craze. Every Government of Europe as well as that of the United States is watching its gold reserves and piling them up with the greatest anxiety. Therefore, in spite of the increased annual supply of gold, there has been a steady appreciation of its value. This appreciation is proved by the steady fall of prices that has been going on in Europe and America ever since 1873—a fall that is unparalleled in modern history. It is further proved by the long series of monetary difficulties into which almost every country, and especially the debtor countries, have been plunged since 1873. The United States is a rich country, with an industrious and active population, and it has enjoyed a long series of prolific crops that are the astonishment of other nations. Yet what is its condition? It is suffering from extreme depression, and great numbers of men in America can find

no employment on almost any terms. Many of its railways can't pay their bonded indebtedness and many of the strongest banking institutions have gone to the wall. The same is true of Australia, another rich country, and Italy and Greece, all debtor countries. In the other countries of Europe, even in England, there is general complaint of extreme depression in many industries. I believe the fall in prices, these monetary difficulties throughout Europe and America this extreme depression, to prove unmistakably that gold has vastly appreciated in the past twenty-five years. The fall in prices since 1872 is estimated by most competent authorities at nearly 50 per cent., or nearly the same as the so-called decline of silver.

But if gold has appreciated, has silver depreciated? My answer is that it has depreciated very little or not at all, except in terms of gold. Silver is still the money of more than half the people of the world, and these people are of so conservative a nature that they resist changes much more powerfully than the people of Europe and America. The people of India have been attached to silver since the beginning of history, and they will continue to use silver in spite of every effort to break them of the habit. Therefore of immemorial custom in India and in China has had a wonderfully steady effect on the value of silver, and therefore I hold that though silver has been discarded in the mints of Europe and America, its continued use by the vast populations of India and China has not permitted any real fall in its value. I could quote dozens of scientific men who have carefully and impartially studied the question of gold and silver, who have come to the conclusion that it is not silver that has depreciated, but gold that has appreciated.

This is the deliberate conclusion of Mr. Jamieson, British Consul at Shanghai, whose studies of prices in China are held in high esteem by all students of money. And Prof. Marshall, in his testimony before the Herschell Commission in 1888, says:—"As regards the depreciation of silver, I am rather puzzled by the statement in the Warrant appointing the Commission, that it is to inquire into the depreciation of silver." I do not admit that silver has depreciated, in the sense of having less purchasing power. I think it has appreciated, and has now a higher purchasing power as regards commodities than it had before."

If this opinion regarding the relative stability of silver be correct, Japan has been entirely right in holding to the steadier and less fluctuating standard of value. In proposing to adopt a unit of gold coin aiming only about half the amount of gold in the old gold yen, Japan has acted with entire propriety and has unconsciously given

the world an object lesson in measuring the amount of appreciation that gold has suffered in the past twenty-five years. She has had the good fortune to be able to cut her unit in two and to call each moiety a new unit without incurring the risk of the cry of repudiation from the creditor class or from neighbouring countries. But had Japan clung to the gold yen of 25.72 grains (9/10 fine), she would have been in even a worse condition than other countries like the United States, Italy, and Australia are to-day. All her public obligations would have appreciated and have constituted an enormous addition to the burden of the people. All private debts, especially of the agricultural classes, would have augmented and would have proved an extreme hardship to these classes. All fixed charges and prices would have advanced and would have drained the productive power of the country. In the United States, every postage stamp, every railway fare, every fixed tax and fee is double the amount it was twenty years ago. Japan is not a country with the great resources of the United States, and had Japan stood on a gold basis during the past twenty or twenty-five years these augmentations to the burdens of the country would have proved an insuperable bar to industrial enterprise and progress. It is even questionable whether Japan could have stood the strain of such a steady increase of indebtedness—whether her whole financial system would not have broken down as it has so nearly done in certain countries of the West.

I am now in a position where I can state my objections to the various arguments of the gold party in Japan. These innovators urge that this reform of the standard will free Japanese and foreign merchants dealing in exports and imports with western nations from the fluctuations of exchange. Undoubtedly, it will accomplish this result. But it is a noticeable fact that these fluctuations are to-day comparatively slight and do not cover a wider range at present than the fluctuations of exchange between two gold countries. That this condition of comparative quiescence may not last long is indeed possible, but it is dangerous to predict the future. It now appears as though no new movement for or against silver will be undertaken for many years to come, and if this proves to be so, exchange will vary but little between gold and silver countries. But, on the other hand, suppose Japan adopts the gold standard. Then, though she is secure of a stable par of exchange with gold countries she is almost certain to incur considerable variations of exchange with the countries of the East, as China, Hongkong, the Philippines, and the Strait Settlements, with whom she transacts a considerable and ever

increasing amount of business. It is a natural and entirely legitimate desire on the part of the Japanese to aim to be the dominant commercial power of the East. Is it reasonable to suppose that they can succeed in this undertaking by breaking away from the prevailing monetary standard of the East? When India closed her mints to the free coinage of silver, did that act benefit herself, or did it benefit Japan and the other silver-using countries of the East? Is it not generally conceded that India has derived no advantage whatever from that measure, and that she has made it easier for competing nations in the East to undersell her in those commodities which they produce in common?

It may be answered that Japan by adopting the gold standard will not necessarily throw her exchanges out of gear with the silver countries of the East. I am inclined, however, to dissent strongly from this view. The rest of Japan's action will be to make a further demand on the world's gold supply and to restrict the demand for silver, and, although this double action of increasing the demand for one metal and denying the use of the other may have no important effect at first, yet, finally, it will certainly result in producing a further divergence of value between the two metals and consequently a difference of exchange between Japan and the other silver-using nations of the East. Every little counts. Nation after nation has entered the circle of gold-using countries during the past twenty-five years, and with every addition to the category silver has fallen in its relation to gold. If Japan steps out of the number of silver countries and puts her monetary system on a gold basis she will be no exception to the rule. Silver will further decline in terms of gold, or rather the latter will still further appreciate, and in that event Japan will lose all the advantages she now possesses of a stable exchange with the Eastern silver standard nations. While Japan by her action may therefore slightly diminish the element of risk in her commerce with Europe and America, she will undoubtedly increase it with those nations with which she has a most active trade and close political and commercial relations.

But further, if a disparity of exchange begins to appear between Japan and the other silver-using nations of the East, Japanese manufacturers, merchants, and producers will lose all those advantages which they have had up to the present producers in order to compete with Japanese producers in the East have had constantly to lower the prices of their commodities. Take for instance the article beer. It is not so many years ago that German beer held the markets of the entire

East. It was imported on a large scale into the cities of Japan as well as Shanghai, Hongkong, Singapore, Manila, and other places. To-day the breweries of Japan are gradually driving out all competing beers, and it will not very long before they have secured all the markets of the East. The demand for the beer produced in Japan is so great that the breweries can scarcely satisfy it. They are all enlarging their capacity. Their profits are extraordinary, at least from a Western point of view, and promise to be still greater in the future. But if Japan once establishes the gold standard, the European beer producer need no longer reduce his prices in order to compete with the Japanese product. Let him once secure his market in the East, and it will be for Japanese brewers to submit to lower prices and smaller rates of profit. Many other instances could be mentioned to the same effect. For instance, the prosperity of Japanese cotton manufactures depends almost entirely upon the so-called low price of silver. English and American cotton mills are undoubtedly better equipped and more economically conducted. But they suffer from an appreciating standard, and, so long as this condition remains, Japanese manufacturers have nothing to fear. But let Japan once be drawn into the vortex of this appalling monetary system and a blow to the prosperity of Japanese cotton manufactures will be inflicted. The factories now building in China need not fear the competition of Japan, if a discrepancy between the silver standard of China and the gold standard of Japan begins to assert itself. At the present time when business is run on a very narrow margin of profit, it requires but a trifling advantage to overthrow a rival manufacturer. A difference of 5 per cent., or 10 per cent., in exchange in favour of China would be a great obstacle to the further introduction of Japanese yarns in face of Chinese competition.

It will require but a few words to dispose of the second point advanced by the gold party in Japan, viz., that Japan is suffering from a depreciating currency, as I have already in a general way adduced my objections to it. I do not believe that silver has depreciated to any considerable degree, if at all, but, on the contrary, that gold has appreciated. If it be urged that prices have risen in Japan, my answer is that this rise of prices is not general in all silver countries but is at present only to be found in Japan, and is a result of the expansive movement of commerce and industry produced by the successes of the recent war with China and by the payment of the Chinese indemnity. Precisely the same phenomenon was observable in Germany in 1871 and 1872 after the close of the Franco-German War. Then, also, was to

be seen a rapid rise in prices, a vast speculative movement, and a heavy investment of capital, culminating at last in the crisis of 1873. In the language of economics, this movement is accompanied by a transfer of circulating into fixed capital, and this experience Japan is now undergoing. As a proof of this, it is to be noted that before the war broke out exchange with Europe and America was even lower than it is to-day, yet no noticeable rise of prices or increase of speculation was to be seen. It is only since the war that the upward tendency in prices, whether of commodities or securities, has prevailed, and even at present a movement in the opposite direction is said to be under way. It may be noted, too, that Japan, as a heavy buyer of commodities from Europe and America, as raw cotton, oil, steamships, men-of-war, and machinery, is paying a larger price than is necessary because of the silver standard. But those who urge this point forget that prices have been steadily falling in Europe and America during the past twenty-five years. Steel rails, for instance, are cheaper to-day in silver prices than they were twenty or even fifteen years ago. I doubt whether there is a single commodity of any importance imported into Japan from Europe and America that can not be had in Japan to-day in silver prices cheaper than it could twenty years ago. Oil is cheaper, flour is cheaper, iron and steel are cheaper, and cotton is cheaper. And if these commodities are not dearer now than fifteen or twenty years ago in silver the Japanese have no cause for complaint, and the charge that Japan is suffering from the evils of a depreciated currency falls to the ground.

But even granting that the silver currency of Japan has depreciated to some slight extent, is that evil to be compared with the dangers of an appreciating currency? Provided a money is entirely trusted by the people and the credit institutions of a country are well organized; and provided, for her, that the depreciation is neither excessive nor very sudden, is a general rise of prices due to this cause any cause of regret or complaint? Many economists have considered this point and have compared the results of a contraction with those of an expansion of the metallic currency of a country. I can recall the now classic words of the great philosopher and economist, David Hume, on this point, where he shows that a rise of prices due to this cause stimulates economic energy and enterprise. The economist, J. R. McCulloch, says that an increase of metallic currency in a country may be compared to rain after a long period of dry weather. Cleverly, one of the keenest economists of France, says that such a change will benefit those who live by current labour; and

Jevons speaks in the strongest terms to the same effect. To this list of illustrious names I can add that of Gen. F. B. Walker, but lately deceased, and many others; but perhaps the best comparison of the effect of an appreciating with that of a slightly depreciating currency is made in the Reports of the Royal Commission on the Depression of Trade appointed in 1885. The Commission, after declaring their belief that there had been a continuous fall of prices since 1873 caused by the appreciation of the standard of value, state:—

"There can be little doubt that production and commercial enterprise are stimulated to a greater extent by rising than by falling prices. Whatever may be the inconveniences of a rise in prices, it certainly encourages a greater activity in production and an extension of credit. When prices are rising, capital is constantly endeavouring to find new means of employment; and a spirit of enterprise animates all the classes engaged in commercial operations. In times when prices are falling, on the other hand, speculation, even of a perfectly legitimate kind, is checked and production tends to languish. Suppose a manufacturer to borrow a fixed sum at a fixed rate of interest. This he has to repay, whatever the result of his operations may be. Meanwhile, prices may fall. Not only does he buy his raw material at the higher price and sell his goods at the lower; but he has also to pay interest and repay principal on the higher value; and in addition to this, it is found that wages do not respond to such movements as quickly as the prices of commodities. The trader, too, is affected in the same way; he does not know what the value of his stock will be at the year's end, or what profit he will be able to secure upon his capital; and when trade is crippled, it is natural that production should halt."

The third point mentioned by the gold monetarists of Japan as an argument in favour of a change of standards is certainly curious. They wish to render it easier for foreign capital to enter Japan and thus to foster Japanese industrial development. This reasoning has certainly an odd look. For many years the Japanese Government has made every effort to prevent foreign capital from entering the country. Foreigners have been prohibited by law from investing their capital in Japanese bonds (with a single exception), they have been prohibited by law from holding the shares of any railway or industrial enterprise, they have been forbidden the ownership of land or the means to carry on any business outside of certain specified places. Yet at the present moment these admirers of the gold standard suddenly urge as an objection to silver that it prevents the influx of

foreign capital! Certainly this is a paradoxical complaint and smacks of inconsistency. If these partisans of foreign capital wish to stimulate the influx of that useful commodity into Japan, they might first insist upon trying to change the laws that now act as a barrier to any such movement. Furthermore, if it is an objection to the silver standard that it prevents Japan from selling her bonds abroad, the objection can easily be met by the simple guarantee of the Japanese Government that she will fix the gold price of exchange for bonds. But if Japan is really anxious to get at the reserves of European capital a still more economical method is at hand. The lowest rate of interest on Japanese bonds floated within the empire is 5 per cent. Were the Government, however, to raise a gold loan abroad it undoubtedly could float a foreign loan at 4 per cent, or possibly even less—thus providing a means of saving a considerable amount of interest to the State. On the other hand if foreign capitalists voluntarily invest their capital in Japanese industrial enterprises they will demand under any monetary system whatever a considerably higher rate of profit than they can secure at home, say 10 per cent, or 20 per cent. The very cheapest and most economical method would be to issue a foreign gold loan. In this way Japan would have all the advantages of a cheap market to borrow in without incurring any risks to her monetary standard. The gold party may indeed insist that Japan does run a risk in floating a foreign loan, because the silver market may still further decline and in that case Japan would suffer from the depreciation in exchange. But there is hardly much strength in this point, as it is more than likely that if Japan retains the present standard silver will not decline further in terms of gold. But even if such an event should occur, it is not so great a calamity to the finances of the country as an appreciating standard would be. An appreciating standard of value is a silent, yet pervading tax on every industrial enterprise and every form of productivity. Such a tax would be far more difficult to bear than a slight increase in the amount of a foreign payment. By assuming the gold standard, Japan in fact does not avoid the danger, which she is so anxious to escape. She only hides the danger, but the real risk is much greater than though she suffered from a fall in exchange in repaying her indebtedness, because under the silver standard the prosperity of her industry, which is the true source of taxation, is unimpaired.

I fancy that few partisans of the gold standard in Japan would confess to be influenced by the argument I have last mentioned. The belief that gold is superior to silver or that silver is in some inscrutable way an inferior money

to gold, they would urge, is a merely sentimental consideration and it would therefore have no place in a monetary scheme, which ought to be governed entirely by considerations of utility. But much as the partisans of the gold standard in Japan deny the charge, I am convinced that this sentimental, illusory, and I think temporary, belief in gold has much influence in certain high and authoritative quarters. It may be a half-unconscious admiration; yet though not clear to their minds it is certainly one of the most powerful motives actuating them. In 1893, when the India mints were closed to silver, one of Japan's greatest statesmen, at present a confessed partisan of the gold standard, expressed great admiration of England's action in barring the further coinage of silver in India. Now that act was condemned by nearly every English authority on monetary questions. It was apologized for by nearly every English statesman at the time, and was defended by the Indian Government only on the ground that it was an experimental attempt to discover whether it was not the lesser of two great evils. Since then the closing of the Indian mints has proved confessedly a failure, and it finds scarcely a defender even in England herself. Again, only a few months ago when the political campaign was actively going on in America, another statesman of Japan wrote of the monetary system of the United States as "the gold standard, as 'the sensible coinage measure now in force there.' Now it is acknowledged by the overwhelming majority of both parties, Republicans as well as Democrats, that the present monetary system of the United States is not "a sensible coinage measure." The leaders of both parties wish to substitute bimetalism for the present system and the only point of difference between them is how to alter the present standard for a better one. It is clear to my own mind that when two statesmen of Japan go out of their way to express admiration for a system which is not acceptable even to the people who, to avoid a worse evil, make a virtue of necessity and therefore submit to it, they are under the influence of a delusion. This delusion may be defined as a species of mania for the yellow metal, almost as inexplicable and as potent as the craze for tulip bulbs in Holland in the 17th century.

This is not the first instance of a similar irrational admiration for a particular species of money. After the great discoveries of gold in California and Australia during the decade 1850-1860, there was almost, though not quite, a similar craze in favour of silver in Europe and America. About the middle of the decade an American writer contributed an article to the *North American Review*, in which he took a most alarmist view of the situation.

He declared that the new gold would swamp the markets of Europe and America and he strongly urged measures to protect the small stock of silver still in existence. How this new supply of gold affected the imagination of certain European statesmen will be best shown by quoting what General Walker says in this latest work, *International Bimetallism*, p. 123:—"The nations of Europe," he says, "were prompt to take alarm at the menace to industry, finance, and even the social structure (from the rapid increase of gold supplied). 'Ten years ago,' wrote M. Léon Faucher in 1852, 'every one was frightened at the prospect of the depreciation of silver; during the last eighteen months it is the diminution in the price of gold that has been alarming the public.' In June, 1850, Holland demonetized the gold to florin piece and the guillenne. Portugal prohibited any gold from having current value, except English sovereigns. Belgium prohibited the export of silver, as the metal likely to become the very stay and staff of then national existence. Austria, which was then on a basis of inconvertible paper, thought that the cheapening of gold offered a favourable opportunity to come to a metallic basis, and called the German states to meet in a monetary conference at Vienna. The other states feared the depreciating gold and insisted on the single silver standard. The most that Austria could do was to secure the concession of the coinage of gold *croûs*, as *trade pieces*."

"In some other countries shops sought to attract trade by offering to receive gold at par. M. de Lawrye states that traders hung out the sign, 'L'or est reçu sans perte!' (Gold received with discount). 'Even in England,' wrote Chevalier, 'some persons have put forth the advice that the standard should be altered, and that silver should be substituted for gold. They ground the opinion, primarily, upon the plea of principle, in maintaining that, gold having ceased for an interval of time, which may be possible rather long, to satisfy the essential condition of having a value relatively stable, it thereby loses its aptitude for the functions of money.' So respected an author as Mr. James MacLaren, author of the 'History of the Currency,' put forth a proposal that life insurance companies should be placed on a silver basis. Certain American Corporations in the same period, sought in safeguard themselves by the similar arrangements; and to this day have the satisfaction of receiving, every month, a certain number of ounces of fine silver, paid in for rents under contracts then made. One English financier is quoted as declaring that gold would soon only be 'fit for the dust-pan.' " Lately, while reading the life of Burton the Great English traveller, I was in-

terested in a long report he sent home to his Government on certain gold mines which he thought could be worked to great advantage by his countrymen. His report was answered by the noble lord and statesman then in power at the Foreign Office by the remark that "England has too much gold already." This was written about the time that the gold panic prevailed in Europe.

Very few people living to-day are unwilling to confess that this sudden admiration of silver in 1850-60 was a mistake, a mistake founded on an irrational desire for something which might become scarce. At present, however, the tables are turned and the universal mania is for gold. To day Russia takes almost precisely the same measure against silver that she formerly took for it. Austria refuses to resume on a silver basis. One wonders to day what the definition of money is. Economists tell us that it should be a convenient medium of exchange and a stable measure of value, but this definition by no means satisfies the partisans of the gold standard. What they seem to desiderate is the most valuable medium of exchange and an appreciating measure of value, and that must be of a yellow colour. The craze to day for gold is paralleled by the mania for silver forty years ago—a mania that would have proved just as disastrous to the gold interests then, had it not been for the remarkable and courageous action of France in keeping open her mints to the coinage of both metals.

But the danger of the present craze is not over. It was begun by Germany in 1871 and since then it has drawn nearly every country of Europe and America into its vortex. Now Japan proposes to enter the charmed circle. Will she come out of it unscathed? I do not believe so. If Japan establishes herself on a gold standard her industrial development may not be injured at first. There will undoubtedly be wisecracks who will point out the unflinching prosperity of Japan. But as soon as the gold contracting movement again starts up Japan will suffer with the rest of the gold countries and then these wisecracks will not confess their error. They will attribute her depression and her disasters not to the true cause, but to bad banking, to bad crops, to the acts of God, or some equally remote reason. Japan, in spite of crop failures, tidal waves, destructive earthquakes, and a costly war is the only important commercial country in the world that has escaped panic or severe depression during the past seven years. Is not that sufficient? Do the Japanese wish prosperity or do they wish gold? If the former then stick to the silver standard, if the latter then indulge in the prevailing madness of the hour.

There are those I know who talk much of

the cost of production of gold and silver, who say that the demand for gold will be met by increased supplies, and that silver production having largely ceased in the world will no longer depreciate in value. But I cannot follow this reasoning. There is no regular cost of production of gold or of silver. The element of cost does not affect the value of the two metals. The use of gold as money gives it its substantial value. The use of silver as money, also gives it its substantial value. Diminish the use of one and its value declines in terms of the other. Augment the use of one and its value increases in terms of the other. The supplies of gold and silver are nearly constant. It is the demand that changes and is changing to day, and the bulk of the demand for these two metals is derived from their function as a monetary standard. Abolish that function from one of the two metals and its value, that its valency, or relative strength, must droop. Strengthen that function and its relative weakness tends to disappear. This is the law of

metallic money. Will Japan, in the midst of as great a measure of prosperity as, to day under her system of production she can possibly enjoy, jeopardize her interests and voluntarily inflict a wound in her most vital part by overthrowing a standard that more than anything else has contributed to her prosperity and economic health, and invite a standard which has injured the interests of every country that has adopted it in the past twenty-five years? Science, commonsense, and prosperity lean to the side of silver; prejudice, vested interests, and calamity to the side of gold. Will Japan in the face of ten years of material success on a silver basis change to a standard that has, without exaggeration, inflicted and is still inflicting, countless miseries upon the world? For myself, I frankly confess I should like to see Japan accept the gold standard, if for no other reason than to have a prophecy fulfilled, or the pleasure of saying within a decade, "I told you so."

GARRETT DROPPERS.





**END OF  
TITLE**